COMMONWEALTH OF MASSACHUSETTS

BEFORE THE

DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

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Investigation by the Department of Telecommunications)

and Energy on Its Own Motion into the Extent to Which)

Metering, Billing and Information Services Associated with) D.T.E. 00-41

Electric Service May Be Provided on a Competitive Basis)

and Whether Distribution Companies' Service Territories)

Should Remain Exclusive)

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COMMENTS OF

WESTERN MASSACHUSETTS ELECTRIC COMPANY

INTRODUCTION

Western Massachusetts Electric Company ("WMECO" or the "Company") respectfully provides the following comments in response to the Notice of Inquiry ("NOI") dated June 12, 2000, issued by the Department of Telecommunications and Energy (the "Department"). The NOI requests comments regarding the extent to which metering, billing and information services ("MBIS") associated with electric service may be provided on a competitive basis and on whether distribution companies' service territories should remain exclusive. The Department is conducting this investigation pursuant to Section 312 of the Electric Restructuring Act of 1997 (Chapter 164 of the Acts of 1997), which direct the Department to determine (1) whether MBIS services should be unbundled from other services provided by distribution companies and be competitively provided; (2) whether such unbundling would result in substantive savings to consumers and if so, whether these savings could be realized with little, or no disruptions to employee staffing levels of the distribution companies; and (3) whether distribution company service territories should remain exclusive, as required by G.L. c. 164, Section 1B.

Additionally, the Department directed all electric distribution companies operating in the Commonwealth to file detailed information relative to their costs associated with providing MBIS that were recovered through the company's base rates for the year 1999 and information on the number of employees that are involved in providing MBIS.

The following comments respond to the specific questions posed by the Department.

Appendix 2 provides information relative to WMECO's costs of providing MBIS and Appendix 3 provides information on employee levels.

RESPONSES TO THE DEPARTMENT'S SIX QUESTIONS

WMECO offers the following comments responding to the Department's six questions raised in its June 12, 2000 Order:

What are the costs and benefits that competitive MBIS would provide to consumers of electricity, and to other entities that provide services in the electric industries? Benefits should include, but not be limited to, potential cost savings, the enhancement of available energy- and non-energy-related services, and the extent to which the successful development of the competitive market for generation requires the introduction of competitive MBIS. Please also discuss why these same benefits could not be achieved within the current monopoly structure. Comments on the costs of competitive MBIS should include, but not be limited to, impacts on utility employee staffing and the effect that such competition would have on a distribution company's ability to meet the needs of its customers on an ongoing basis.
With electric industry restructuring came the notion that customers would benefit if metering, billing and customer information services could be unbundled and provided by parties other than the distribution companies. In particular, competitive electric suppliers argued that customers would benefit from unbundling these services because the suppliers could provide these same services better, cheaper and faster than the distribution companies. The suppliers have also argued that customers would also benefit as new and innovative services were developed. Today, there is still no evidence that unbundling Metering, Billing and Information Services (MBIS), and allowing them to be provided competitively, will provide incremental benefit to customers. Instead, there is growing evidence that a business framework that requires the implementation of redundant business processes and systems will likely increase costs and create more confusion for consumers.

The Department has requested comments on the following specific benefit areas: potential cost savings, the enhancement of available energy and non-energy-related services, and the extent to which the successful development of the competitive market for generation requires the introduction of competitive MBIS. WMECO's comments, by area, follow:

Potential cost savings – The Company's analysis has shown that it costs, in total, approximately $2.00 – $3.00 each month for metering, meter reading, billing and information services on a per customer basis. Given the economies of scale that are inherent with the current regulated process, the potential for savings to be achieved through allowing electric suppliers to provide these services is minimal. Additionally, in their recently published report, the Pacific Economics Group states that "data available in the public record show that the costs of third party MBI are real and growing, while the benefits remain speculative." The report cites the following potential incremental costs for the distribution company:

Fixed Costs:
Hiring new personnel, upgrading information systems, and redesigning business processes to procure, receive, inventory, and track meters.
Developing new systems and communications architectures to measure hourly energy usage and make the resulting data available to other market participants.
Restructuring meter reading routes and developing new systems to track meter reading customers.
Developing billing systems (software and hardware) that can support multiple customer billing options.
Hiring new personnel to monitor billing transactions and handle billing "exceptions."
Recurring Costs:
Processing returned meters (e.g., refurbishing and testing).
Transacting and exchanging information with competitive energy suppliers.

Administering creditworthiness checks on competitive energy suppliers.
Several types of benefits have been discussed including: support of competitive energy supply markets, increased use of real-time pricing, lower prices for metering and billing services, enhanced innovation and product choices, and customer convenience through consolidated bills. However, at this time WMECO has no reliable quantitative evidence of these benefits being realized has been found and therefore any discussion of benefits must be regarded as speculative.

The extent to which the successful development of the competitive market for generation requires the introduction of competitive MBIS – A competitive generation market will develop without the introduction of competitive MBIS. It has been argued that, because of the thin margins on commodity generation, competitive MBIS is needed in order to attract competitive electric suppliers to the market by affording them an opportunity to create additional value for customers by providing better or less expensive metering or billing. This argument betrays a lack of understanding of the nature of the marketplace for commodity generation. In this market, competitive electric suppliers will prosper by maximizing sales volume, to the greatest extent possible, without raising their unit costs. These scale economies are consistent with intense competition if the size of the market is large enough. The combination of large markets and significant scale economies suggests that, in spite of low profit margins, Massachusetts' retail power markets can be expected to attract significant market entries.

Enhancement of available energy and non-energy-related services – The above argument is also likely to hold for both energy and non-energy-related services. The market for energy procurement is extensive and is nationwide in scope. Some competitive electric suppliers serving Massachusetts' customers are already operating coast-to-coast. While we are not aware of any explicit evidence on scale economies for power merchandising, the nature of the business suggests they may be considerable. The technology of merchant service is information intensive and requires large information technology or information systems expenditures. The unit costs of these investments decline rapidly as service expands. Providing service to a larger and more diverse set of customers also makes possible risk pooling and perhaps economies in bulk purchasing, advertising and mass marketing.

(2) Please describe all services that are currently provided by distribution companies under the broad category of metering, billing, and information systems? Can or should all these services be provided competitively? If not, please identify services that cannot or should not be provided competitively and explain why that is so.

In Massachusetts, the Company provides customers and electric suppliers with a broad range of meter options and a basic billing option.

Metering

The Company recognizes that the primary issue with respect to metering services is providing both the customer and electric supplier with access to accurate metered information to support retail choice. Customers, electric suppliers and distribution companies all need metered information in a timely manner to support competition in the marketplace. Customers need information to intelligently purchase and use their power. Electric suppliers need information to develop, market, and support their product and service offerings. Distribution companies need information to bill customers, to efficiently monitor and operate their distribution system and to provide the necessary New England Independent System Operator (ISO) reporting. The ISO needs information to assign costs and perform market settlement. WMECO offers a number of metering options which provides this information to customers, suppliers and the ISO in a timely manner.

The following is a synopsis of the metering services which the Company currently provides to customers and competitive electric suppliers:

Basic Service - Billing Determinants – At a minimum, the Company provides the

monthly billing determinants to the supplier based on the Company’s normal meter reading cycle.
Basic Service - Hourly Reporting – The Company provides an estimate of the supplier’s hourly loads to the ISO at no additional charge to the supplier.
Hourly Reporting - Option One – Customers/suppliers who wish to improve the accuracy of their load estimate reported to the ISO, may enter into a service agreement for the Company to install a recording meter. With this option, the Company will provide estimated hourly loads to the ISO based on the specific customer’s actual historical load. As part of the service agreement, the supplier/customer will assume responsibility for all costs associated with the installation, ownership and maintenance of the recording meter.
Hourly Reporting - Option Two – Customers/suppliers who opt for actual hourly load data may enter into a service agreement for the Company to acquire and install, for an agreed upon price, the appropriate hourly recording equipment. As a result of this option, the Company will report actual hourly loads to the ISO in lieu of estimated loads. As part of the agreement, the customer/supplier will assume responsibility for the installation and ongoing charges associated with the phone line required under this option.
Hourly Reporting - Option Three – Customers/suppliers who opt for actual hourly load data and wish to own their own load recording equipment, may enter into a service agreement for the Company to acquire and install, for an agreed upon price, an appropriate interface device. As part of the agreement, the supplier would purchase a Company approved hourly recorder, and provide a Company accessible communications line to the recorder. The Company would thus obtain and report actual hourly reads to the ISO. The supplier may remove both the recorder and the communications line upon termination of the supplier/customer contract.
Hourly Reporting - Option Four – Customers and suppliers whose needs are not met by Option One through Option Three (items 3-5), may enter into a service agreement for the Company to install any meter or communications device as long as it meets applicable standards, Company requirements, and in the case of a device installed on a Company meter, does not interfere with the operation of that meter. As part of the service agreement, the Company shall assume ownership of the communications device or meter. The supplier shall be responsible for all costs associated with the installation, ownership and maintenance of the communications device or meter.
Northeast Utilities’ Connecticut subsidiary, The Connecticut Light and Power Company, provides MDATA Online which operates through interactive software on the web and provides customers/energy suppliers access to their energy usage data via a personalized password and ID. For a fee, facility managers can download the information and use it to determine peak usage and forecast future demand. This service also features user friendly analysis tools which allows the customer/supplier to analyze usage patterns and identify the potential for energy savings. This is a valuable service for customers preparing for restructuring and comparing licensed suppliers, since suppliers will need to know the hourly demands. The Company is ready to provide this service to its customers in Massachusetts.

Under WMECO’s model, metering would remain the responsibility of the regulated distribution company because the common needs of the customer, distribution company, energy supplier and ISO for metering information can quickly and best be met by building on existing systems and using experienced employees. WMECO’s model minimizes customer confusion yet ensures the integrity and timeliness of the metering data by allowing all parties access to the meter information while limiting the number of parties with access to the metering hardware . This model offers two advantages. First, concerns for interfacing the various metering and recording technologies are reduced significantly. Because of the variety technologies in use, connectivity of metering devices and data collection systems is a more difficult problem to solve than accessing common databases. Second, this approach also can lead to efficiencies in providing metering services by eliminating duplicative meters and meter reading and data collection networks. In other words, allowing the distribution company to install and maintain physical meters promotes the realization of economies of scale.

There are also important operational advantages when metering and distribution services remain integrated because meter-related activities provide significant operational benefits to distribution functions such as network maintenance, operations, and planning. Specific examples of these operational benefits include an enhanced ability to locate faults, rapidly dispatch service crews to restore power, optimize substation maintenance, reduce line losses, and improve distribution planning. These are all examples of economies or unit cost reductions that result when a single company provides distribution and metering compared with the alternative that these services are provided by separate firms. The economies lost when metering is unbundled may raise prices and reduce the quality of distribution services.

The Company’s operating model provides a low cost; flexible approach to metering which achieves many of the benefits that have been attributed to competitive metering. Among the advantages of the proposed model are:

Availability of Enhanced Meter Data and Service Offerings – Suppliers and/or customers would have the flexibility to collect and manipulate customer usage information in any manner desired, and structure energy service offerings, or modify usage, based thereon. The more sophisticated the competitively supplied recorder/communication device, the greater the potential for customizing energy offerings.
Elimination of Barriers to Customer Choice: Because the distribution company provides "core" metering services, customers would not be held "captive" to particular suppliers as a result of competitive meter arrangements, e.g., coupling energy supply with use of a particular meter. Thus, customers’ energy choices would be driven by the operation of the energy market, not by their use of a particular meter.
Resolution of Default Customer Metering: Because the Distribution Company will continue to provide "core" metering, customers will be able to move to and from default service (as well as between suppliers) without interruptions of service, irrespective of the level of competitively provided enhanced metering.
Minimization of Barriers to Entry in Generation Market: Requiring third parties to invest in (or arrange for) metering for customers could require significant investment and could dissuade many suppliers from entering that market, thereby stifling competition. The minimal cost associated with the Company’s proposed operating model minimizes such disincentive. Furthermore, removal of supplier-owned recorder or communications devices (e.g., if a customer switches suppliers) is much easier than removal of a complete metering installation, and does not require the level of coordination necessary for a complete meter change out (e.g., distribution company disconnection of service and installation of a new meter).
Meter Accuracy and Testing: Because the Distribution Company would continue to own the core metering device, existing rules and procedures governing meter accuracy and testing would remain in effect, without the need for additional supporting infrastructure or new standards to certify and regulate competitively-supplied meters.
In addition to the foregoing, the WMECO’s operating model also eliminates potential issues relating to application of the Massachusetts Electrical Code to Non-Distribution-Company-owned metering installations, meter-related stranded costs, and Distribution Company protection from theft of service. Because there would be a single measurement device under the proposed model, and because that device would be owned by the regulated Distribution Company, meter-related disputes would continue to be under the Department’s jurisdiction, thereby avoiding any unnecessary regulation of competitive entities.

In summary, the Company’s proposed metering services model satisfies all of the following concerns:

For metering, provides a level playing field for all Suppliers.
Enables the orderly and efficient operation of Default Service.
Eliminates costly metering barriers of entry to the Competitive Supply market
Facilitates the transfer of Energy Suppliers with minimal impact to the measuring device or continuity of service.
Satisfies ISO’s need for hourly data.
Uses accepted standards for accuracy, reliability and safety.

Maintains installation standards without the need for new installer certification.
Continues to use proven meter testing and auditing procedures.
Uses proven techniques for data gathering and storage.
Provides open multi-vendor communication architecture for communication of metered data.
Allows for the integration of metering, settlement and billing systems using open and proven communications architecture.
Allows for a variety of Supplier owned recorders, the basis for new value added customer services.
Billing

The monthly bill is the primary vehicle by which the Company and competitive electric suppliers remain in contact with the customer. WMECO’s model provides a basic billing service for suppliers:

1) That have rate structures that are consistent with the customer’s existing rate and metering installation. The Company will support different pricing options within the same rate structure. However, a supplier would be unable to assess a demand charge to a customer who does not have a demand meter, or provide "time of use" service to a customer who does not have a suitable meter.

For which the Company can bill customers for generation charges on a monthly basis in conjunction with the customers normal billing cycle.
Competitive electric suppliers have previously argued that there are benefits to allowing them to perform consolidated billing for the distribution company such as customer convenience; and enhanced services. At this time, there are no known quantitative estimates of these benefits. Secondly, any potential benefits are also possible without competitive billing.

For example, competitive billing is not necessary for competitive electric suppliers to bill for their own products and services or to establish name recognition and relationships with customers. In fact, separate energy supply and distribution billing is arguably more consistent with effective customer communication. Separate billing may also be viewed positively in terms of customer education since it will continually remind customers that energy supply and power delivery are distinct activities that, in the new competitive environment, can be undertaken by separate companies.

On the other hand, it must be acknowledged that eliminating single bill options deprives customers of important convenience benefits. Some customers may not choose a competitive electric suppliers if choosing these suppliers involves the inconvenience of a new monthly bill. Separate billing may therefore reduce the effectiveness of energy supply competition, particularly if consolidated bills are still available from the distribution company.

WMECO understands that the potential problems associated with an electric supplier performing billing are far different from the potential problems of allowing an electric supplier to perform metering functions that are critical to the distribution company’s operations and the performance of the ISO. Additionally, there may be customer benefits, market efficiencies and other advantages to allowing electric suppliers to bill whereas there are serious concerns with potentially creating market barriers and raising costs and customer confusion if electric suppliers, rather than distribution utilities, provide core metering services. Today there is no data to support the conclusion that billing services should be made competitive. However, in the future, that data might become available and the Department may decide that unbundled billing makes sense. WMECO cautions that any move to make this segment competitive needs to be well thought out and done far in advance of implementation to allow ample time to change existing legacy information systems.

In addition to the costs of changing legacy billing systems, which will be considerable, distribution companies will incur a number of other recurring costs if billing is made competitive. Many of these costs are due to the cost of transacting and exchanging information between distribution companies and competitive electric suppliers. These transactions were not necessary when utilities alone provided billing services. The desirability of consolidated billing therefore involves evaluating whether the value of these convenience benefits more than offsets the incremental costs that must be incurred to make consolidated billing possible.

Costs also arise because of the need to have security in the creditworthiness of competitive electric suppliers. This is important because, if the competitive electric supplier is fully responsible for collecting customer bills, it also must make payments to the distribution company for power distribution services regardless of whether end-users pay their bills. The creditworthiness of competitive electric suppliers thereby becomes critical and is appropriately subject to ongoing checks.

Distribution companies must also perform a host of other activities on an ongoing basis to support competitive electric supplier billing. These activities include:

Tracking competitive electric supplier receivables under distribution company consolidated billing; tracking the distribution company’s own receivables under competitive electric supplier consolidated billing
Sending bill data to competitive electric suppliers
Sending invoice to competitive electric suppliers
Processing payments from competitive electric suppliers
Performing collection activities on competitive electric suppliers
Reverting customers of competitive electric suppliers to dual billing
Mailing inserts to competitive electric suppliers
Processing change of billing option for competitive electric supplier customers
Competitive billing also involves a number of non-recurring costs. For the first time, distribution company billing systems must be capable of unbundling and billing for separate services. Processes must also be developed for accommodating multiple billing options.

Many activities associated with third-party billing require additional employees. For example, the introduction of new billing components and data exchanges with competitive electric suppliers increases the potential for error, so more workers are needed to monitor billing transactions. Distribution companies expect that having multiple billing providers will increase the number of billing exceptions, especially in the early years of competition. New personnel may also be needed to handle billing "exceptions," or bills that must be handled manually because of missing or incorrect usage, meter reads outside of expected ranges, and related problems.

Information Services

Distribution companies have long provided customers with a range of information services (e.g., responding to customer inquiries, responding to storm and outage calls, and on-cycle meter reading.) With the advent of restructuring, distribution companies have begun to explore the possibility of providing customers with additional information services on a competitive or unbundled basis. WMECO does not presently offer "competitive" information services to either customers or suppliers in Massachusetts, however, WMECO will soon propose fees for new services provided at the option of the buyer that will allow the recovery of the added costs incurred by providing the new services. The Company believes customers/suppliers who benefit from new services provided by the Company should bear the entire cost of the activities in addition to an approved rate of return. Where possible, these fees will be market based.

WMECO’s model includes the following information services.

Customer Usage and Load Data

The Company will provide usage and load data to a customer at no cost. Suppliers are also provided with monthly usage data, at no charge, via an EDI 867 transaction.

Customer Interval Load Data

The Company will provide customer interval load data, as an optional service, to both customers and suppliers.

Customer Load Analysis

The Company will provide customer load analysis, as an optional service, to both customers and suppliers. The analysis will be designed to meet individual customer and supplier needs, or to address specific questions.

Customer Service

The Company will offer customer service , as an optional service, to suppliers. Customer service is defined as processing of standard customer informational requests on behalf of a supplier including providing supplier balances, rate information, resolving disputes and processing customer enrollment. This service includes inbound calls and does not include outbound telemarketing services to potential customers or promoting new supplier services to existing customers. The service will be tailored to meet individual supplier needs.

Supplier Collection Services

The Company will provide, as a basic service, collection services for all electric suppliers. The collection services provided to suppliers will be identical to collection activities employed by the Distribution company for its own active/inactive delinquent accounts:

Credit letters will include delinquent supplier balances; and
Credit arrangements will be made on the combined disco/supplier delinquent balances.

This service does not include special collection programs such as early placement of final accounts, or NUSTART.

Supplier Initiation

The Company will provide each electric supplier with the necessary testing, and training to establish the supplier as a business partner in WMECO’s service territory. This service will also include the programming required to establish the supplier’s rate/pricing options in the Company’s billing system and interfaces into the Company’s load reporting and collection systems.

Supplier Rate Maintenance And Error Correction

The Company will provide rate maintenance and error correction, as an optional service, to suppliers. The service will include maintaining supplier rates and pricing options in the Company’s CIS system, and calculating customer bill adjustments because of errors in pricing.

Special or Off-Cycle Meter Reading

The Company will provide special or off-cycle meter reads to customers and suppliers on five days notice.

WMECO’s information services model provides many of the same benefits that are provided under WMECO’s metering and billing models.

Availability of Tools to Collect and Manipulate Customer Usage Information in Any Manner Desired. Because the distribution company provides these tools, customers will not be dependent on particular suppliers for load analysis in order to make informed energy choices.
Elimination of Barriers to Customer Choice: Customers will have better information to make their energy purchase decisions.

Minimization of Barriers to Entry in Generation Market: Requiring third parties to provide or arrange for billing and collection services could dissuade many suppliers from entering that market, thereby stifling competition. The minimal cost associated with the Company’s proposed operating model minimizes such disincentive.

G.L. c. 164, § 1B(a) provides that distribution company service territories shall be based on the service territories actually served on July 1, 1997, and following, to the extent possible, municipal boundaries. Please discuss whether this provision of G.L. 164 should be amended or repealed in whole or in part. As part of this response, commenters are encouraged to refer and cite to relevant statutory interpretations or Department decisions.
WMECO adopts the position on exclusive service territories set forth in Section V (Attached as Appendix 1 of this filing) of the Comments of Boston Edison Company, Commonwealth Electric Company, Cambridge Electric Light Company and Commonwealth Gas Company (that section is reproduced at the conclusion of these comments for the convenience of the Department). As explained in Section V, G.L. c. 164, § 1B(a), is necessary and appropriate and should not be amended or repealed.

G.L. c. 164, § 1B(a) provides distribution companies with the exclusive obligation to provide distribution service to all retail customers within their respective service territories unless the written consent of the distribution company has been obtained and filed with the Department and clerk of the municipality so affected. Please discuss whether this provision of G.L. c. 164 should be amended or repealed in whole or in part.
As explained in Section V of the Comments of Boston Edison Company, Commonwealth Electric Company, Cambridge Electric Light Company and Commonwealth Gas Company, comments that WMECO adopts herein, G.L. c. 164, § 1B(a) should not be amended or repealed.

G.L. c. 164, § 1B(c) prohibits Department-regulated electric companies or their affiliates from using the distribution system of another electric company or make direct or indirect sales to end-use customers in another electric company's service territory unless (1) the Department has approved a restructuring plan for the supplying electric company providing for comparable direct access to end-use customers within its own distribution service territory, or (2) the supplying electric company has entered into an agreement, on or before January 1, 1997, for direct access to an end-use customer located on the border of its service territory. Please discuss whether this provision of c. 164 should be amended or repealed in whole or in part.
Chapter 164, § 1B(c) of the General Laws does not pertain directly to the continued existence of exclusive service territories. Rather, this section ensures that all Department-regulated electric companies file, and have approved by the Department, restructuring plans that provide for customer choice in their service territories. Should the Department decline to approve an electric company’s restructuring plan, the statutory section bars such an electric company and its affiliates from making direct or indirect sales in another company’s service territory (other than border sales agreed to prior to January 1, 1997).

On March 1, 1998, customer choice began in each Department-regulated electric company’s service territory. Subsequently, the Department approved a restructuring plan for each Department-regulated electric company. Because customer choice has begun and all restructuring plans have been approved, the sanction provided for in Section 1B(c) (the prohibition from selling in another electric company’s service territory) is no longer applicable. While no longer applicable, Section 1B(c) reflects the depth of the Legislature’s intent to foster customer choice (through Department-approved restructuring plans) and repealing or amending the section at this time would serve no purpose. Accordingly, Section 1B(c) should not be repealed or amended.

To what extent, if any, does the Restructuring Act require or allow the Department to consider whether MBIS should be offered competitively within the natural gas industry?

The applicability of the Restructuring Act and MBIS issues to the natural gas industry is most appropriately addressed by those entities most directly affected. Accordingly, WMECO respectfully declines to comment.